

**DISTRICT OF COLUMBIA HEALTH AND HOSPITALS
PUBLIC BENEFIT CORPORATION**

Financial Statements

September 30, 2000

(With Independent Auditors' Report Thereon)



2001 M Street, N.W.
Washington, D.C. 20036

Independent Auditors' Report

The Inspector General of the Government of the District of Columbia
The Board of Directors of the
District of Columbia Health and Hospitals Public Benefit Corporation
Washington, DC:

We have audited the accompanying balance sheet of the District of Columbia Health and Hospitals Public Benefit Corporation (the PBC), as of September 30, 2000, and the related statement of operations and changes in fund balance (deficit), and cash flows for the year then ended. These financial statements are the responsibility of the PBC's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the PBC as of September 30, 2000, and the results of its operations, changes in its fund balance (deficit) and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the PBC will continue as a going concern. As discussed in note 12 to the financial statements, the PBC has suffered recurring losses from operations, has a working capital deficit at September 30, 2000 and has relied on financial support from the District of Columbia. The District of Columbia has not committed to providing any additional support beyond March 2001. These issues raise substantial doubt about the PBC's ability to continue as a going concern. Management's plans in regard to these matters are also described in note 12. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 19, 2001 on our consideration of the PBC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

KPMG LLP

January 19, 2001



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**DISTRICT OF COLUMBIA HEALTH AND HOSPITALS
PUBLIC BENEFIT CORPORATION**

Balance Sheet

September 30, 2000
(in thousands)

Assets

Current assets:

Cash	\$ 152
Patient accounts receivable, net of allowances for doubtful accounts of approximately \$41,900	12,869
Estimated third-party payor settlements	11,844
Inventory and other current assets	<u>1,311</u>

Total current assets 26,176

Buildings and equipment, net 2,000

Total assets \$ 28,176

Liabilities and Fund Balance

Current liabilities:

Accounts payable and accrued expenses	\$ 32,731
Due to District of Columbia	42,059
Other current liabilities	<u>666</u>

Total current liabilities 75,456

Fund balance (deficit) (47,280)

Total liabilities and fund balance \$ 28,176

See accompanying notes to financial statements.

**DISTRICT OF COLUMBIA HEALTH AND HOSPITALS
PUBLIC BENEFIT CORPORATION**

Statement of Operations and Changes in
Fund Balance (Deficit)

Year ended September 30, 2000
(in thousands)

Revenue:	
Net patient service revenue	\$ 64,051
Intra-District revenue	12,015
Other revenue	2,478
Appropriations from the District of Columbia	82,757
Transfers from the Department of Human Services	<u>14,427</u>
Total revenue	175,728
Expenses:	
Salaries and benefits	113,945
Contractual services	25,266
Materials and supplies	23,487
Energy, communication and other	14,748
Provision for bad debts	14,910
Depreciation	<u>4,638</u>
Total expenses	<u>196,994</u>
Loss from operations before impairment of long-lived assets	(21,266)
Impairment of long-lived assets (note 11)	<u>(32,433)</u>
Excess (deficiency) of revenues over expenses	(53,699)
Fund balance, beginning of year, as restated (note 2)	<u>6,419</u>
Fund balance (deficit), end of year	<u><u>\$ (47,280)</u></u>

See accompanying notes to financial statements.

**DISTRICT OF COLUMBIA HEALTH AND HOSPITALS
PUBLIC BENEFIT CORPORATION**

Statement of Cash Flows

Year ended September 30, 2000
(in thousands)

Cash flow from operating activities:	
Excess (deficiency) of revenues over expenses	\$ (53,699)
Adjustments to reconcile decrease in fund balance to net cash used in operating activities:	
Depreciation expense	4,638
Impairment of long-lived assets	32,433
Loss on disposal of fixed assets	616
District of Columbia transfers	(97,184)
Decrease in patient accounts receivable	1,083
Decrease in estimated third-party payor settlements	2,223
Decrease in inventory and other assets	2,164
Increase in accounts payable and other liabilities	10,097
Increase in due to other funds	<u>1,087</u>
Net cash used in operating activities	<u>(96,542)</u>
Cash flows from noncapital financing activities:	
District of Columbia transfers	97,184
Cash flows used in investing activities:	
Purchases of buildings and equipment	<u>(490)</u>
Net increase in cash and cash equivalents	152
Cash, beginning of year	<u>—</u>
Cash, end of year	<u><u>\$ 152</u></u>

See accompanying notes to financial statements.

**DISTRICT OF COLUMBIA HEALTH & HOSPITALS
PUBLIC BENEFIT CORPORATION**

Notes to Financial Statements

September 30, 2000

(1) Organization

Effective October 1, 1996, the Council of the District of Columbia approved the "Health and Hospitals Public Benefits Corporation Act of 1996" (the PBC Act). This legislation transferred the health care functions previously performed by the District of Columbia General Hospital (the Hospital), a 250 operating bed acute care hospital located in Southeast Washington, D.C., the Community Health Clinics (the Clinics) and the School Health Program to a Public Benefit Corporation (the PBC). The PBC has separate legal existence within the District of Columbia (the District) and is subject to all laws and regulations of the District government with the exception of certain personnel and procurement policies. The Community Health Clinics previously were under the auspices of the Department of Human Services' Commission of Public Health (DHS).

Effective October 1, 1997, the PBC received final approval of operational responsibility for the Hospital and the Clinics. Title over all hospital and community clinic assets was transferred to the PBC on this date.

(2) Summary Of Significant Accounting Policies

(a) Proprietary Fund Accounting

The PBC utilizes the proprietary fund method of accounting, as prescribed by the Governmental Accounting Standards Board, whereby revenue and expenses are recognized on the accrual basis. Substantially all revenue and expenses are subject to accrual.

(b) Charity Care

Under District of Columbia Public Law 1-134, the PBC must provide health care services to those District of Columbia residents needing care, regardless of their ability to pay. The District provides a direct annual appropriation of funds to the PBC to pay for a portion of the approximate cost of this care for those residents who are indigent or otherwise unable to pay. Because the PBC does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

**DISTRICT OF COLUMBIA HEALTH & HOSPITALS
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Notes to Financial Statements

September 30, 2000

(c) *Net Patient Service Revenue*

The PBC has agreements with third-party payors that provide for payments to the PBC at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are considered in recognition of revenue on an estimated basis in the period the related services are rendered and are adjusted in future periods as adjustments become known and final settlements are determined.

(d) *Accounting Standards*

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the PBC has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

(e) *Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(f) *Inventories*

Inventories of drugs and supplies are stated at lower of cost or market, determined on the basis of average cost.

(g) *Buildings and Equipment*

The PBC's facilities are located on land owned by the federal government and provided to the PBC at no cost. Accordingly, no value for land is reflected in the financial statements. Depreciation is computed on a straight-line basis for both financial reporting and cost reimbursement purposes.

As discussed in note 11, the PBC recorded an impairment charge related to its buildings and equipment. As a result of the impairment, the remaining equipment balances will be depreciated over a period not to exceed five years.